

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Ann Arbor Transportation Authority	County Washtenaw
Audit Date September 30, 2005	Opinion Date December 9, 2005	Date Accountant Report Submitted to State: February 3, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

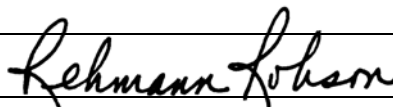
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI
Accountant Signature 		Zip 48605	

# ***Ann Arbor Transportation Authority***

*Financial Statements as of and for the  
Years Ended September 30, 2005 and 2004 and  
Additional Information for the Year Ended  
September 30, 2005, Independent Auditors' Reports  
Required by the Office of Management and Budget  
Circular A-133 and Supplemental Schedule of  
Expenditures of Federal Awards for the  
Year Ended September 30, 2005, and  
Independent Auditors' Reports*

# ANN ARBOR TRANSPORTATION AUTHORITY

## TABLE OF CONTENTS

---

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (Required Supplementary Information)	2 - 5
FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004:	
Balance Sheets	6
Statements of Revenues, Expenses and Changes in Net Assets	7
Statements of Cash Flows	8 - 9
Notes to Financial Statements	10 - 19
INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION	20
ADDITIONAL INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2005:	
Schedule of Operating Revenues	21
Schedule of Operating Expenses	22
Schedule of Nonoperating Revenues	23
Schedule of Federal and State Interest in Capital Assets	24
Schedule of Operating Expenses by Contract and General Operations	25
Schedule of Computations for Net Eligible Costs Computations of General Operations for State Operating Assistance	26
Notes to Schedule of Computations for Net Eligible Costs Computations of General Operations for State Operating Assistance	27
Schedule of Financial Assistance:	
Federal and State Capital Contributions	28
Federal and State Operating Revenues	29
Schedule of Mileage Data (Unaudited)	30
Schedule of Vehicle Hours and Passengers (Unaudited)	31
Supplemental Schedule of Expenditures of Federal Awards	32
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	33-34
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO A MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	35-36
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	37
MANAGEMENT'S CORRECTIVE ACTION PLAN	38
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	39



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## INDEPENDENT AUDITORS' REPORT

December 9, 2005

To the Members of the Board of Directors of  
Ann Arbor Transportation Authority  
Ann Arbor, Michigan

We have audited the accompanying basic financial statements of Ann Arbor Transportation Authority (the "Authority") as of and for the years ended September 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ann Arbor Transportation Authority as of September 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reported dated December 9, 2005 on our consideration of Ann Arbor Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information contained in the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements of the Ann Arbor Transportation Authority. Such information has been subjected to the auditing procedures applied in our audit of the 2005 basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the 2005 basic financial statements taken as a whole.

# ANN ARBOR TRANSPORTATION AUTHORITY

## MANAGEMENT DISCUSSION AND ANALYSIS YEARS ENDED SEPTEMBER 30, 2005 AND 2004

---

As management of the Ann Arbor Transportation Authority (the “Authority”) in Ann Arbor, Michigan, we offer readers of the Authority’s financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2005. We encourage readers to consider the information in conjunction with the financial statements, related footnote disclosures and the required supplementary and additional information as listed in the table of contents.

### Overview of the Financial Statements and Financial Analysis

This discussion is intended to present an overview of the Authority’s financial performance for the years ended September 30, 2005 and 2004 and does not purport to make any statement regarding the future operations of the organization. While the Authority is an instrumentality of the State of Michigan, it is not a component of the State as defined by the Governmental Accounting Standards Board (GASB).

The annual report consists of the basic financial statements, which are the balance sheet, statement of revenues, expenses and changes in net assets, and the statement of cash flows, prepared in accordance with GASB principles. This report also contains other supplementary information in addition to the basic financial statements, as required by the GASB and the State of Michigan Department of Treasury.

Effective with the year ended September 30, 2003, the Authority adopted GASB Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments* and Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Government: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. The basic financial statements for the year ended September 30, 2004 have been audited and are included for comparative purposes.

### Financial Highlights

The Authority’s total assets decreased from the prior year by \$1,057,000 (2.4%), primarily due to a decrease in net capital assets as depreciation expense was greater than capital assets purchased during the year.

Cash and investments decreased by \$1,302,000 (8.5%) due to the timing of the local property tax levy from the City of Ann Arbor.

Current liabilities decreased by \$938,000 (8.8%) due to the decrease in grants payable from the overpayment in the prior years’ State of Michigan Formula Operating Assistance.

Non-operating revenue increased \$1,346,000 (7.6%) due to the increase in utilization of Federal preventive maintenance grant funding from \$800,000 to \$2,000,000.

Total expenses increased \$691,000 (2.9%) primarily due to the increase in purchased transportation. The Authority subcontracted out the remaining portion of paratransit services. Fuel and lubricants increased \$330,000 from the prior year due to the higher price per gallon.

## Balance Sheets

The balance sheets include all assets and liabilities. They are prepared under the “full accrual” basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when they occur, regardless of the timing of the related cash flows. Assets and liabilities are measured using the economic resources measurement focus. Capital assets are reported at historical cost less an allowance for depreciation.

A summary of the Authority’s assets, liabilities and net assets at September 30, 2005 and 2004 follows (in thousands):

	2005	2004
Assets:		
Current assets	\$18,840	\$18,708
Capital assets, net	<u>23,854</u>	<u>25,043</u>
<b>Total assets</b>	<b><u>\$42,694</u></b>	<b><u>\$43,751</u></b>
Liabilities:		
Current liabilities	\$ 9,754	\$ 10,693
Noncurrent liabilities	<u>3,769</u>	<u>3,234</u>
<b>Total liabilities</b>	<b>13,523</b>	<b>13,927</b>
Net Assets:		
Invested in capital assets	23,854	25,043
Unrestricted	<u>5,317</u>	<u>4,781</u>
<b>Total net assets</b>	<b><u>29,171</u></b>	<b><u>29,824</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$42,694</u></b>	<b><u>\$43,751</u></b>

At September 30, 2005, the Authority’s total assets were \$42.69 million, compared to \$43.75 million at September 30 2004. The Authority’s largest capital investments include buses and related equipment, net of depreciation, of \$11.5 million in 2005 and \$12.5 million in 2004 and the land and buildings, net of depreciation, of \$11.3 million in 2005 and \$11.4 in 2004.

The majority of the Authority’s current liabilities are deferred revenue (\$6.5 million in 2005 and \$6.3 million in 2004), which is 75% (nine of twelve months) of the tax levied on the property in the City of Ann Arbor on July 1, 2005. The original property tax levy, approved by the voters in the City of Ann Arbor, Michigan, was 2.5 mills. However, the property tax levy is subject to the Headlee Amendment to the State of Michigan Constitution and has decreased in recent years and is currently 2.0772 mills. The majority of the tax levy has been collected and the deferred revenue represents the portion that will be used to help fund operations from October 1, 2005 to June 30, 2006.

At September 30, 2005, the Authority had outstanding commitments relating to the purchase of a comprehensive maintenance, inventory and purchasing software for \$874,500, a park and ride study for \$60,100 and route evaluation study for \$163,200 for a total of \$1,097,800. Funding for the software is through Federal capital grants (80%) and State capital grants (20%). Funding for the two studies is through Federal planning grants (80%), State planning grants (10%) and Local funds (10%).

The total assets of the Authority exceeded its total liabilities by \$29,171,000 (net assets) as of September 30, 2005. Of this amount, \$5,317,000 (unrestricted net assets) may be used to fund future operations and meet future obligations of the Authority.

## Statement of Revenues, Expenses, and Changes in Net Assets

A summary of the Authority's revenues, expenses and changes in net assets for the year ended September 30, 2005 and 2004 follows (in \$1,000s):

	2005	2004
Operating revenues	\$ 3,023	\$ 3,194
Operating expenses	<u>24,127</u>	<u>23,436</u>
Operating loss	(21,104)	(20,242)
Non-operating revenues	<u>19,103</u>	<u>17,757</u>
Change in net assets before capital contributions	(2,001)	(2,485)
Capital contributions	<u>1,348</u>	<u>6,875</u>
Change in net assets	(653)	4,390
Net assets, beginning of year	<u>29,824</u>	<u>25,434</u>
<b>Net assets, end of year</b>	<b><u>\$29,171</u></b>	<b><u>\$29,824</u></b>

The Authority's primary sources of operating revenues are passenger fares collected in the farebox in each bus, sales of 30-day passes and tokens. Other operating revenues are special fares where someone else than the rider pays the fare, such as the successful go!pass and MRide programs.

Total operating expenses of \$24,127,000 include operations (\$15,301,000), vehicle and facility maintenance (\$4,560,000) and general administration (\$4,266,000). The largest portion of all expenses is for employee wages and fringe benefits of \$13,203,000 or 54.7% of all expenses.

Non-operating revenue include Federal, State and local operating assistance. The property tax revenue increased \$322,000 (4.0%) due to the increase in the taxable value of property in the City of Ann Arbor. However, State revenues increased \$129,000 (1.9) primarily due to the increase in the prior year formula adjustments from the State of Michigan Department of Transportation. These funds were offset by the loss of matching preventive maintenance grant revenue. Federal revenue increased \$899,000 due to the increased utilization of Federal preventive maintenance grant funding from \$800,000 to \$2,000,000 and the decrease of \$421,000 in Congestion Mitigation/Air Quality grant revenue.

Capital contributions represent Federal and State grants for the purchase of replacement and new capital assets. During 2005, the Authority purchased six paratransit buses for \$875,000. The purchase of these vehicles was funded by Federal (\$700,000) and state (\$175,000) capital grants. These results have decreased when compared to 2004, when the Authority purchased eighteen buses for \$5,303,000. Most of the funds for capital assets are provided through Federal formula grants (Section 5307) administered by the Federal Transportation Administration. A portion of these Federal formula dollars can be used as operating assistance. In 2005 and 2004, the Authority used \$2,348,000 million and \$1,064,000, respectively for operating assistance, such as preventive maintenance, planning and capital cost of contracting.

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the information provided in the basic financial statements.

## **Economic Factors and Next Year's Budget (Fiscal Year 2006)**

The Authority receives significant operating assistance each year from the State of Michigan Comprehensive Transportation Fund. The source of these funds includes a portion of state gasoline taxes, vehicle related sales taxes, license fees and other taxes and fees. These funds are subject to legislative appropriation each year and the percentage of eligible expenses funded is subject to change during the year and subject to reconciliation and audit after the year has concluded. These funds are also subject to a "floor" amount equal to the formula operating assistance received in fiscal year 1997 (\$6,317,122).

For fiscal year 2006, the Board of Directors adopted a balanced budget with a projected surplus of \$2,600. Subsequent to the 2006 budget's adoption, ultra-low sulfur diesel fuel prices peaked to over \$3.00 per gallon and have now decreased to approximately \$2.00 per gallon. The Authority expects the average price of ultra-low sulfur diesel fuel to be close to \$2.07 originally budgeted even though diesel fuel prices continue to be unpredictable. The Authority uses approximately 700,000 gallons of ultra-low sulfur diesel fuel per year and this expense represents 6.5% of the fiscal year 2006 operating budget.

The Authority also receives significant funding through the property tax levy on the citizens of the City of Ann Arbor. This amount has been increasing by 4.0% to 5.0% annually for the past 5 years and appears to be growing into the future. The Ann Arbor area has consistently been noted as a quality place to live with the University of Michigan and Eastern Michigan University along with hospitals and numerous cultural institutions in the area.

## **Request for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the transit provider's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller/CFO, Ann Arbor Transportation Authority, 2700 South Industrial Highway, Ann Arbor, Michigan 48104.



# ANN ARBOR TRANSPORTATION AUTHORITY

## BALANCE SHEETS

SEPTEMBER 30, 2005 AND 2004

ASSETS	2005	2004
CURRENT ASSETS:		
Cash (Note 2)	\$ 1,142,235	\$ 6,164,615
Investments (Note 2)	12,910,369	9,189,774
Accounts receivable, less allowance of \$0 in 2005 and 2004	364,828	341,407
Grants receivable (Note 3)	406,513	1,480,672
Other receivables (Note 4)	2,825,729	313,297
Inventory	635,321	572,827
Prepaid expenses	554,716	645,033
Total current assets	18,839,711	18,707,625
CAPITAL ASSETS: (Note 5)		
Land and improvements	2,180,821	2,180,821
Park and Ride lot construction	1,486,007	1,477,419
Buildings and improvements	16,177,803	14,583,862
Equipment and other (Note 13)	29,139,281	29,532,291
Construction in progress		1,076,040
Total capital assets	48,983,912	48,850,433
Less accumulated depreciation	25,129,885	23,807,492
Net capital assets	23,854,027	25,042,941
TOTAL ASSETS	\$ 42,693,738	\$ 43,750,566
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 536,022	\$ 1,126,803
Grant refunds payable (Note 3)	1,592,847	2,240,184
Accrued payroll	350,764	321,581
Other accrued expenses	762,355	732,749
Deferred revenue (Note 6)	6,512,410	6,271,217
Total current liabilities	9,754,398	10,692,534
CONTINGENCIES (Note 8)		
POST-RETIREMENT BENEFIT OBLIGATION (Note 12)	3,768,804	3,234,054
Total liabilities	13,523,202	13,926,588
NET ASSETS:		
Invested in capital assets	23,854,027	25,042,941
Unrestricted	5,316,509	4,781,037
Total net assets	29,170,536	29,823,978
TOTAL LIABILITIES AND NET ASSETS	\$ 42,693,738	\$ 43,750,566

See notes to financial statements.

# ANN ARBOR TRANSPORTATION AUTHORITY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2005 AND 2004

---

	2005	2004
OPERATING REVENUES (Note 9)	\$ 3,022,671	\$ 3,193,589
OPERATING EXPENSES (Notes 7, 9 and 12):		
Operations	15,300,967	14,567,771
Maintenance	4,559,554	4,592,992
General administration	<u>4,265,993</u>	<u>4,274,766</u>
Total operating expenses	<u>24,126,514</u>	<u>23,435,529</u>
OPERATING LOSS	(21,103,843)	(20,241,940)
NONOPERATING REVENUES:		
Local	9,291,615	8,976,983
State	6,911,791	6,783,071
Federal	<u>2,899,263</u>	<u>1,996,590</u>
Total nonoperating revenues	<u>19,102,669</u>	<u>17,756,644</u>
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	(2,001,174)	(2,485,296)
CAPITAL CONTRIBUTIONS	<u>1,347,732</u>	<u>6,875,183</u>
CHANGE IN NET ASSETS	(653,442)	4,389,887
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>29,823,978</u>	<u>25,434,091</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 29,170,536</u>	<u>\$ 29,823,978</u>

See notes to financial statements.

# ANN ARBOR TRANSPORTATION AUTHORITY

## STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from transit operations	\$ 2,467,982	\$ 2,806,780
Payments for salaries and wages and fringe benefits	(12,793,313)	(12,524,572)
Payments to suppliers	(5,141,372)	(3,532,806)
Payments for claims and insurance	(460,968)	(939,996)
Payments for purchased transportation	(2,516,862)	(2,010,318)
Net cash used in operating activities	<u>(18,444,533)</u>	<u>(16,200,912)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Nonoperating revenue:		
Local	6,940,646	9,234,684
State	6,243,550	7,741,557
Federal	3,080,415	1,987,241
Net cash provided by noncapital financing activities	<u>16,264,611</u>	<u>18,963,482</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(1,646,054)	(6,957,046)
Capital contributed by state and federal grants	2,261,643	5,895,654
Proceeds from sale of equipment	8,814	20,353
Net cash provided by (used in) capital and related financing activities	<u>624,403</u>	<u>(1,041,039)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investment securities	(9,316,139)	(6,287,403)
Proceeds from sale and maturities of investment securities	5,595,544	3,804,607
Interest income	253,734	139,121
Net cash (used in) provided by investing activities	<u>(3,466,861)</u>	<u>(2,343,675)</u>
<b>NET (DECREASE) IN CASH</b>	<b>(5,022,380)</b>	<b>(622,144)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b><u>6,164,615</u></b>	<b><u>6,786,759</u></b>
<b>CASH AT END OF YEAR</b>	<b><u>\$ 1,142,235</u></b>	<b><u>\$ 6,164,615</u></b>

See notes to financial statements.

# ANN ARBOR TRANSPORTATION AUTHORITY

## STATEMENTS OF CASH FLOWS (Continued) YEARS ENDED SEPTEMBER 30, 2005 AND 2004

---

	2005	2004
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	<u>\$ (21,103,843)</u>	<u>\$ (20,241,940)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,821,341	2,660,508
Changes in assets and liabilities which (used) provided cash:		
Receivables	(203,057)	15,330
Inventory	(62,494)	255,713
Prepaid expenses	100,762	(120,681)
Payables	(590,781)	482,196
Accrued payroll	29,183	64,958
Other accrued expenses	<u>564,356</u>	<u>683,004</u>
Total adjustments	<u>2,659,310</u>	<u>4,041,028</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (18,444,533)</u>	<u>\$ (16,200,912)</u>

See notes to financial statements.

# ANN ARBOR TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED SEPTEMBER 30, 2005 AND 2004

---

### 1. NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

#### **Nature of the Organization**

The Ann Arbor Transportation Authority (the "Authority") is a governmental unit established under statutes of the State of Michigan to provide a mass transportation system within and beyond the corporate limits of the City of Ann Arbor.

The Authority is not included in the financial reporting entity of the City of Ann Arbor because the City does not have the ability to exercise significant oversight over the Authority. The Authority can independently generate revenue, adopt budgets and borrow funds. The members of the governing Board of Directors are appointed by the mayor of the City and confirmed by the City Council.

#### **Significant Accounting Policies**

***Basis of Accounting*** - In accordance with Governmental Accounting Standards Board (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

***Investments*** are held primarily in certificates of deposit and in two pooled municipal investment trust funds. These trust funds consist of certificates of deposit, United States Treasury securities, repurchase agreements and commercial paper.

***Revenues, Capital Grant Contributions and Deferred Revenue*** - Revenues are classified as operating and nonoperating revenues and capital contributions. Operating revenues include activities that have the characteristics of exchange transactions, such as passenger fares and special transit fares. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as Federal and State operating grants, City of Ann Arbor tax levies, fees paid by other municipalities under purchase of service agreements, and interest income. Capital contributions are Federal and State grants designated for the purchase and/or construction of land, buildings and equipment are recognized as revenue and are included in the statement of revenues, expenses and changes in net assets.

The Authority recognizes as revenue only that portion of the City of Ann Arbor's tax levy for transit services which is attributable to the Authority's fiscal year. Accordingly, only one quarter of the tax levy and the inventory replacement tax for the period July 1 to June 30 is included as nonoperating revenues in the accompanying statements of revenues, expenses and net assets. The balance of the tax levy is recorded as deferred revenue. (See Note 6).

***Vacation and Sick Pay*** - The Authority records expense for vacation and sick pay benefits when earned by the employees. The accrual for unused vacation and sick leave is reported as a current liability because there is no limit on how many earned vacation and sick days an employee can use in a year.

**Inventory** is stated at the lower of cost (first-in, first-out basis) or market.

**Statement of Cash Flows** – For purposes of this statement, the Authority considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**Capital Assets** – Capital assets, which include land, buildings, vehicles and other equipment are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation is computed using the straight-line method based on the estimated useful lives of 20 to 30 years for land improvements, of 6 to 30 years for buildings and improvements and of 3 to 12 years for equipment.

**Net Assets** are displayed in two components as follows:

*Invested in Capital Assets* – This consists of capital assets, net of accumulated depreciation.

*Unrestricted* – This consists of net assets that do not meet the definition of “invested in capital assets.”

**Use of Estimates** - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications** – Certain amounts from the prior year have been reclassified to conform to the current year presentation.

## 2. CASH AND INVESTMENTS

The following is a reconciliation of deposit and investment balances as of September 30, 2005 and 2004:

Balance Sheet:	<u>2005</u>	<u>2004</u>
Cash	\$ 1,142,235	\$ 6,164,615
Investments	<u>12,910,369</u>	<u>9,189,774</u>
Total	<u>\$ 14,052,604</u>	<u>\$15,354,389</u>

	<u>2005</u>	<u>2004</u>
Deposits and Investments:		
Bank deposits (checking, savings and certificate of deposit accounts)	\$ 7,747,584	\$ 8,750,862
Investment in securities and mutual funds	6,298,150	6,596,657
Cash on hand	<u>6,870</u>	<u>6,870</u>
Total	<u>\$ 14,052,604</u>	<u>\$ 15,354,389</u>

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

**Investments** – In addition to the State restrictions noted above, the Authority’s policy is to limit investments to the following:

- Certificates of deposit, depository receipts, and repurchase agreements (covered by direct obligations of the United States Treasury) with any financial institution that maintains a principal office or branch office located in the State of Michigan. The total investment (exclusive of checking accounts) in any financial institutions shall not exceed the lesser of twenty percent of that financial institution’s capital and surplus or \$4,000,000.
- Bonds and other direct obligations of the United States or any agency thereof with a maturity of three years or less.
- Top rated commercial paper of corporations, acquired through the bidding process or through the secondary market with a maturity not more than 270 days after the date of purchase. Not more than \$500,000 may be invested in a single corporation.
- Governmental mutual funds which invest only in authorized investments for local units of government under state law and which offer daily liquidity.

The Authority chooses to disclose its investments by specifically identifying each. As of year-end, the Authority had the following deposits and investments.

<u>Investment</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Fair Value</u>	<u>Rating</u>
Deposits	N/A	Various	\$ 14,021,447	N/A
Bank One Money Market Fund	N/A	3.28%	12,107	Moody’s AAA
Comerica Money Market Fund	N/A	3.34%	12,180	Moody’s A1P1
Total			<u>\$ 14,045,734</u>	

## **Investment and deposit risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year- end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end, \$13,372,884 of the Authority's bank balance of \$14,172,884 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. On the investments listed above, the custodial credit risk is indicated for those investments which are rated.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Authority's investment policy limits investments as described above.



### 3. GRANTS RECEIVABLE/GRANT REFUNDS PAYABLE

The Authority recognizes a receivable under approved grants as related project expenditures are incurred and the grant revenue earned. Grant refunds payable represent amounts to be returned to the grantor. The following grant amounts were outstanding at September 30:

	2005	2004
Michigan Department of Transportation:		
Buses and related equipment	\$ 175,169	\$ 11,334
Rideshare program	20,010	13,046
Operating assistance	(1,546,125)	(2,194,465)
Planning	8,726	6,517
Transportation to Work (formerly Project Zero)	38,930	28,234
Shop equipment	3,121	0
Building improvements	0	200,000
Computer hardware and software	5,780	3,493
Park and Ride lot improvements	1,718	0
Rail Study	(2,700)	(2,700)
Federal Transit Administration:		
Buses and related equipment	4,320	59,437
Planning	69,813	51,034
Shop equipment	1,117	
Building improvements	0	860,832
Computer hardware and software	23,122	
Park and Ride lot improvements	6,871	0
Congestion Mitigation/Air Quality	3,794	200,816
Southeastern Michigan Council of Governments - Planning Grant		2,910
NET GRANTS RECEIVABLE (REFUNDS PAYABLE)	<u>\$ (1,186,334)</u>	<u>\$ (759,512)</u>
REMAINING UNEARNED BALANCES ON ABOVE GRANTS	<u>\$ 4,233,876</u>	<u>\$ 5,643,258</u>

The grants receivable/grant refunds payable are reported on the balance sheets as follows:

	2005	2004
Grants receivable	\$ 406,513	\$ 1,480,672
Grant refunds payable	<u>(1,592,847)</u>	<u>(2,240,184)</u>
Net grants receivable (refunds payable)	<u>\$ (1,186,334)</u>	<u>\$ (759,512)</u>

#### 4. OTHER RECEIVABLES

Other receivables consist of the following amounts:

	<b>2005</b>	<b>2004</b>
City of Ann Arbor - tax levy	\$ 2,546,010	\$ 236,980
City of Ann Arbor - inventory replacement tax	74,574	74,574
Interest receivable	25,509	1,743
Workers' compensation insurance refund	<u>179,636</u>	<u>0</u>
Total	<u>\$ 2,825,729</u>	<u>\$ 313,297</u>

## 5. CAPITAL ASSETS

Capital asset activity during the fiscal year ended September 30, 2005 is as follows:

Capital assets not being depreciated:				
Land and improvements	\$ 2,180,821	\$	\$	\$ 2,180,821
Construction in progress	<u>1,076,040</u>	<u>          </u>	<u>1,076,040</u>	<u>          </u>
Total capital assets not being depreciated	<u>3,256,861</u>	<u>          </u>	<u>1,076,040</u>	<u>2,180,821</u>
Capital assets being depreciated:				
Park and ride lot construction	1,477,419	8,588		1,486,007
Buildings	14,583,862	1,593,941		16,177,803
Vehicles and related equipment	22,168,309	933,289	1,348,848	21,752,750
Radio and telephone systems	203,866		3,030	200,836
Fare collection equipment	1,003,900			1,003,900
Maintenance equipment	476,965	24,430	475	500,920
Office equipment and furniture	1,524,569	107,912	160,222	1,472,259
Passenger shelters	724,261	37,956		762,217
Other	187,250			187,250
Advanced operating system	<u>3,243,171</u>	<u>15,978</u>	<u>          </u>	<u>3,259,149</u>
Total capital assets being depreciated	<u>45,593,572</u>	<u>2,722,094</u>	<u>1,512,575</u>	<u>46,803,091</u>
Less accumulated depreciation:				
Park and ride lot construction	366,837	75,735		442,572
Buildings	7,549,081	546,130		8,095,211
Vehicles and related equipment	10,641,978	1,781,394	1,335,220	11,088,152
Radio and telephone systems	136,254	14,656	3,030	147,880
Fare collection equipment	386,453	84,108		470,561
Maintenance equipment	258,391	43,945	475	301,861
Office equipment and furniture	1,024,188	120,570	160,222	984,536
Passenger shelters	303,380	63,657		367,037
Other	170,083	5,252		175,335
Advanced operating system	<u>2,970,847</u>	<u>85,893</u>	<u>          </u>	<u>3,056,740</u>
Total accumulated depreciation	<u>23,807,492</u>	<u>2,821,340</u>	<u>1,498,947</u>	<u>25,129,885</u>
Total capital assets being depreciated, net	<u>21,786,080</u>	<u>(99,246)</u>	<u>13,628</u>	<u>21,673,206</u>
TOTAL CAPITAL ASSETS, NET				
	<u>\$ 25,042,941</u>	<u>\$ (99,246)</u>	<u>\$ 1,089,668</u>	<u>\$ 23,854,027</u>

## 5. CAPITAL ASSETS (Continued)

Capital asset activity during the fiscal year ended September 30, 2004 is as follows:

	Balance October 1	Additions	Deletions	Balance September 30
Capital assets not being depreciated:				
Land and improvements	\$ 2,180,821	-	-	\$ 2,180,821
Construction in progress	49,300	1,076,040	49,300	1,076,040
Total capital assets not being depreciated	<u>2,230,121</u>	<u>1,076,040</u>	<u>49,300</u>	<u>3,256,861</u>
Capital assets being depreciated:				
Park and ride lot construction	1,133,335	344,084		1,477,419
Buildings	14,561,412	22,450		14,583,862
Vehicles and related equipment	18,446,172	5,407,116	1,684,979	22,168,309
Radio and telephone systems	202,886	8,700	7,720	203,866
Fare collection equipment	1,003,900			1,003,900
Maintenance equipment	478,611	965	2,611	476,965
Office equipment and furniture	1,449,438	82,997	7,866	1,524,569
Passenger shelters	683,847	40,414		724,261
Other	196,630		9,380	187,250
Advanced operating system	3,285,014		41,843	3,243,171
Total capital assets being depreciated	<u>41,441,245</u>	<u>5,906,726</u>	<u>1,754,399</u>	<u>45,593,572</u>
Less accumulated depreciation:				
Park and ride lot construction	299,918	66,919		366,837
Buildings	7,043,361	505,720		7,549,081
Vehicles and related equipment	10,678,376	1,648,581	1,684,979	10,641,978
Radio and telephone systems	130,043	13,931	7,720	136,254
Fare collection equipment	302,345	84,108		386,453
Maintenance equipment	217,885	43,117	2,611	258,391
Office equipment and furniture	911,180	120,874	7,866	1,024,188
Passenger shelters	244,404	58,976		303,380
Other	174,211	5,252	9,380	170,083
Advanced operating system	2,899,660	113,030	41,843	2,970,847
Total accumulated depreciation	<u>22,901,383</u>	<u>2,660,508</u>	<u>1,754,399</u>	<u>23,807,492</u>
Total capital assets being depreciated, net	<u>18,539,862</u>	<u>3,246,218</u>		<u>21,786,080</u>
<b>TOTAL CAPITAL ASSETS, NET</b>	<u>\$ 20,769,983</u>	<u>\$ 4,322,258</u>	<u>\$ 49,300</u>	<u>\$ 25,042,941</u>

## **6. DEFERRED REVENUE**

Deferred revenue represents amounts not earned, and consists of the following amounts:

	<b>2005</b>	<b>2004</b>
City of Ann Arbor - tax levy	\$6,456,479	\$6,215,284
City of Ann Arbor - inventory replacement tax	<u>55,931</u>	<u>55,933</u>
Total	<u><u>\$6,512,410</u></u>	<u><u>\$6,271,217</u></u>

## **7. EMPLOYEES PENSION PLAN**

The Authority provides pension benefits for substantially all of its employees through a defined contribution plan called the Ann Arbor Transportation Authority Employees' Pension Plan ("Plan"). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after one year of employment. The Authority's contributions for each employee and interest allocated to the employee's account are fully vested after five years of employment. Authority contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the Authority's current year contribution requirement. Employees contribute 3% of their gross earnings to the plan. The Authority's contribution to the plan is 9% less forfeitures of the employee's gross earnings and amounted to \$793,000 and \$719,000 for the years ended September 30, 2005 and 2004, respectively. Total payroll and covered payroll was approximately \$9,497,000 and \$8,811,000 for 2005 and \$9,461,000 and \$8,709,000 for 2004.

The Authority's Board of Directors administers the Plan, and also establishes contribution requirements and approves any Plan amendments.

## **8. CONTINGENCIES**

The Authority is a defendant in several pending personal injury lawsuits. In the opinion of management, the outcome of this litigation and other matters will not significantly affect the Authority's financial position or results of its operations.

## **9. SUBCONTRACT SERVICE**

The Authority subcontracts with a taxi cab company to provide certain services. The Authority pays the cab company fees based on the level of service provided, and the cab company collects and retains the passenger fares as an advance against the monthly billings. Operating revenues and operating expenses include approximately \$290,100 and \$297,400 of fares for these services in the years ended September 30, 2005 and 2004, respectively.

## **10. COST ALLOCATION PLANS**

The Bus Transit Division of the Michigan Department of Transportation has approved the Authority's cost allocation plans for all material allocated expenses. These allocation plans have been used in the preparation of the financial statements.

## **11. INFORMATIONAL SUMMARY OF PROJECTED REVENUES, EXPENDITURES AND METHOD OF FINANCING CAPITAL PROJECTS**

The Authority has prepared and made available for inspection the informational summary of projected revenues, expenditures and capital project costs recommended in Section 15, subsection 1(h), Act 621, PA 1978, as amended, (MCLA 141.435) (MSA 5.3228 (35)) and as required in Act 51, 10e (1) (d) (vii).

## **12. POST EMPLOYMENT RETIREMENT BENEFITS**

The Authority provides contributory and noncontributory medical benefits and basic life insurance coverage for eligible retirees and their spouses. The benefits for bargaining employees are specified by union contract while the Board of Directors establishes those for non-bargaining employees. Bargaining and non-bargaining employees who retire at or after age 62 with at least 15 years of service are eligible for medical coverage. Retirees have the option to select an alternate medical insurance carrier and be reimbursed for such coverage at a rate of up to 130% of that year's core HMO single person premium. Retiree's spouses are eligible to receive 50% of the monthly premium for the core HMO single person premium toward medical coverage. Bargaining and non-bargaining employees who retire at or after age 59-1/2 with at least 15 years of service are eligible for life insurance coverage in the amount of \$30,000 until age 64, \$20,000 from age 65 to 69, \$15,000 from age 70 to 74 and \$10,000 age 75 and over.

The Authority has elected to recognize the expense related to these benefits on an actuarially determined basis, to better match the expense of the benefits with the period in which employees earn the benefits. The actuarial cost method used is the projected unit credit cost method, which is a "benefits/years of service approach." Under this method the accumulated post retirement benefit obligation is the sum of (a) the actuarial present value of benefits of retirees and (b) a proportionate amount of the actuarial present values of the benefits to be paid during the retired life of current active employees with the proration based on years of service and retirement eligibility date. A health care cost trend of 10.0% (decreasing by .5% per year to an ultimate rate of 4.0% per annum), a discount rate of 6.5% per annum in 2005 and 2004, and the 1983 Group Annuity Mortality tables are used for the actuarial calculation.

There are 190 active plan participants. The retirement benefit expense for fiscal 2005 and 2004 determined on the accrual basis is \$534,750 and \$792,725. The total actuarial liability at September 30, 2005 and 2004 is \$3,768,804 and \$3,234,054, respectively. The Authority does not advance fund the retirement benefits. Individual premiums and claims are paid as they are incurred.

## **13. COMMITMENTS**

At September 30, 2005, the Authority had outstanding commitments relating to the purchase of a comprehensive maintenance, inventory and purchasing software for \$874,500, a park and ride study for \$60,100 and route evaluation study for \$163,200 for a total of \$1,097,800. Funding for the software is through Federal capital grants (80%) and State capital grants (20%). Funding for the two studies is through Federal planning grants (80%), State planning grants (10%) and Local funds (10%).

\* \* \* \* \*



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

December 9, 2005

To the Members of the Board of Directors of  
Ann Arbor Transportation Authority  
Ann Arbor, Michigan

We have audited the basic financial statements of Ann Arbor Transportation Authority, as of and for the years ended September 30, 2005 and 2004, and have issued our report thereon dated December 9, 2005. Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying additional information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information on pages 21 - 29 is the responsibility of the management of Ann Arbor Transportation Authority. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements, and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

The schedules of mileage data and of vehicle hours and passengers on pages 30 and 31 are the responsibility of the Authority's management. Such schedules have not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on them.

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF OPERATING REVENUES YEARS ENDED SEPTEMBER 30, 2005 AND 2004

---

OPERATING REVENUES:	2005	2004
Passenger fares:		
Urban	\$ 2,781,530	\$ 3,041,488
Nonurban	<u>241,141</u>	<u>152,101</u>
TOTAL OPERATING REVENUES	<u>\$ 3,022,671</u>	<u>\$ 3,193,589</u>

See Independent Auditors' Report on Additional Information.



# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF OPERATING EXPENSES YEAR ENDED SEPTEMBER 30, 2005 WITH COMPARATIVE TOTALS FOR 2004

	Operations	Maintenance	General Administration	2005 Total	2004 Total
LABOR:					
Operators' salaries and wages	\$ 4,292,309			\$ 4,292,309	\$ 4,506,234
Other salaries and wages	667,925	\$ 1,667,827	\$ 1,111,597	3,447,349	3,387,777
FRINGE BENEFITS					
Pension	511,867	169,595	111,535	792,997	716,226
Other fringe benefits	3,081,430	1,028,440	560,306	4,670,176	4,806,910
SERVICES:					
Advertising fees			31,111	31,111	85,082
Other services		703,300	487,698	1,190,998	1,058,836
Auditing fees			22,800	22,800	22,000
MATERIALS AND SUPPLIES					
CONSUMED:					
Fuel and lubricants	1,190,253	5,231		1,195,484	865,212
Tires and tubes	73,677			73,677	54,638
Materials and supplies	7,144	941,136	347,053	1,295,333	1,433,011
UTILITIES			377,748	377,748	338,174
CASUALTY AND LIABILITY COSTS:					
Premiums for public liability and property damage insurance	384,320			384,320	445,983
Other casualty and liability costs			173,762	173,762	236,121
PURCHASED TRANSPORTATION	3,048,130			3,048,130	2,407,712
MISCELLANEOUS EXPENSES:					
Travel and meetings			53,392	53,392	74,786
Advertising and promotion media			37,401	37,401	104,491
Other		80	200,903	200,983	198,508
LEASES AND RENTALS	14,203		3,000	17,203	33,320
DEPRECIATION	<u>2,029,709</u>	<u>43,945</u>	<u>747,687</u>	<u>2,821,341</u>	<u>2,660,508</u>
TOTAL OPERATING EXPENSES	<u>\$ 15,300,967</u>	<u>\$ 4,559,554</u>	<u>\$ 4,265,993</u>	<u>\$ 24,126,514</u>	<u>\$ 23,435,529</u>

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF NONOPERATING REVENUES YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	2005	2004
LOCAL NONOPERATING REVENUE:		
Purchase of service agreements:		
City of Ypsilanti	\$ 183,718	\$ 187,284
City of Ann Arbor - Downtown Development Authority	24,000	
City of Milan	2,925	7,800
Pittsfield Township	108,524	109,825
Superior Township	19,037	18,541
Ypsilanti Township	209,116	189,225
Northfield's Human Services	5,000	15,000
	<hr/>	<hr/>
Total	552,320	527,675
City of Ann Arbor - tax levy	8,367,448	8,045,246
City of Ann Arbor - inventory replacement tax	74,574	74,574
	<hr/>	<hr/>
Total	8,442,022	8,119,820
Interest income	277,500	139,121
Advertising income	13,400	
Pfizer Art Grant		3,500
Recovery from Federal Bankruptcy Court - Fare Collection System		140,756
Other revenue	741	995
Gain on sale of equipment	5,632	45,116
	<hr/>	<hr/>
Total local nonoperating revenue	9,291,615	8,976,983
STATE AND FEDERAL NONOPERATING REVENUE:		
State of Michigan operating grants:		
Formula operating assistance - urban (Act 51)	6,317,122	6,409,125
Formula operating assistance - non-urban (Act 51)	188,536	158,239
Rideshare program		41,001
Planning program	23,482	20,531
Capital cost of contracting	40,000	25,000
Preventive maintenance		200,000
Transportation to Work (formerly Project Zero)	29,288	46,544
Prior years formula adjustments - urban and nonurban	237,388	(201,944)
Guaranteed Ride Home Reimbursements		1,440
Special services	75,975	83,135
	<hr/>	<hr/>
Total	6,911,791	6,783,071
Federal operating grants:		
Unified planning program passed through SEMCOG (Section 5303)	49,440	49,440
Planning (Section 5307)	187,867	164,249
Federal operating assistance (Section 5311) - passed through the State of Michigan	60,822	41,024
Capital cost of contracting (Section 5307)	160,000	99,998
Congestion Mitigation/Air Quality (Section 5307)	421,124	841,879
Preventive maintenance (Section 5307)	2,000,000	800,000
Rideshare program (CMAQ - passed through the State of Michigan)	20,010	
	<hr/>	<hr/>
Total	2,899,263	1,996,590
	<hr/>	<hr/>
Total state and federal nonoperating revenue	9,811,054	8,779,661
	<hr/>	<hr/>
TOTAL NONOPERATING REVENUES	\$ 19,102,669	\$ 17,756,644

See Independent Auditors' Report on Additional Information.

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION

### SCHEDULE OF FEDERAL AND STATE INTEREST IN CAPITAL ASSETS

YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	2005	2004
FEDERAL AND STATE INTEREST IN CAPITAL ASSETS:		
Balance, beginning of year	\$ 21,792,258	\$ 17,136,069
Contributions - Federal and State capital grants	1,347,732	6,875,183
Recovery from Bankruptcy Court - Fare Collection System		140,751
Depreciation on assets purchased with Federal and State capital grants	<u>(2,539,295)</u>	<u>(2,359,745)</u>
Balance, end of year	<u>\$ 20,600,695</u>	<u>\$ 21,792,258</u>
Detail of Federal and State interest in capital assets at September 30		
Federal government	\$ 35,020,258	\$ 35,025,596
State of Michigan	<u>7,694,046</u>	<u>7,760,982</u>
Total	42,714,304	42,786,578
Less accumulated depreciation on contributed assets	<u>22,113,609</u>	<u>20,994,320</u>
Net Federal and State interest in capital assets	20,600,695	21,792,258
Net local interest in capital assets	<u>3,253,332</u>	<u>3,250,683</u>
Net assets invested in capital assets	<u>\$ 23,854,027</u>	<u>\$ 25,042,941</u>

See Independent Auditors' Report on Additional Information.

See Independent Auditors' Report on Additional Information.

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF OPERATING EXPENSES BY CONTRACT AND GENERAL OPERATIONS YEAR ENDED SEPTEMBER 30, 2005, WITH COMPARATIVE TOTALS FOR 2004

			Contract			Non Urban				
	Capital Cost	Special	Planning	Transportation	Rideshare	Operations			2005	2004
	Of Contracting	Services		to Work	Program	(Sec. 5311:	Urban Operations		Total	Total
	2002-0007/Z12	2002-0007/Z14	2002-0007/Z12	2002-0007/Z13	2005-0091	2002-0007/Z15)	Paratransit	Fixed Route		
TOTAL OPERATING EXPENSES:										
Labor			\$ 30,884	\$ 2,107	\$ 12,729	\$ 27,609	\$ 182,306	\$ 7,484,023	\$ 7,739,658	\$ 7,894,011
Fringe benefits			10,688	838	5,145	32,067	133,656	5,280,779	5,463,173	5,523,136
Services			5,392				10,458	1,229,059	1,244,909	1,165,918
Materials and supplies					968		21,987	2,541,539	2,564,494	2,352,861
Utilities							3,143	374,605	377,748	338,174
Casualty and liability costs							4,821	553,261	558,082	682,104
Purchased transportation	\$ 40,000	\$ 122,393		26,343		\$ 438,749	2,420,645		3,048,130	2,407,712
Miscellaneous					1,168		2,460	288,148	291,776	377,785
Leases and rentals							142	17,061	17,203	33,320
Depreciation							2,420	2,818,921	2,821,341	2,660,508
Total operating expenses	40,000	122,393	46,964	29,288	20,010	498,425	2,782,038	20,587,396	24,126,514	23,435,529
Less ineligible expenses						7,925	162,420	5,212,936	5,383,281	4,340,274
TOTAL	\$ 40,000	\$ 122,393	\$ 46,964	\$ 29,288	\$ 20,010	\$ 490,500	\$ 2,619,618	\$ 15,374,460	\$ 18,743,233	\$ 19,095,255

See Independent Auditors' Report on Additional Information

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF COMPUTATIONS FOR NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS FOR STATE OPERATING ASSISTANCE YEAR ENDED SEPTEMBER 30, 2005

	Non Urban Operations	Urban Operations	
		Paratransit	Fixed Route
EXPENSES:			
Labor	\$ 27,609	\$ 182,306	\$ 7,484,023
Fringe benefits	32,067	133,656	5,280,779
Services		10,458	1,229,059
Materials and supplies		21,987	2,541,539
Utilities		3,143	374,605
Casualty and liability costs		4,821	553,261
Purchased transportation	438,749	2,420,645	
Miscellaneous		2,460	288,148
Leases and rentals		142	17,061
Depreciation		2,420	2,818,921
Total expenses	498,425	2,782,038	20,587,396
LESS INELIGIBLE EXPENSES:			
Items reimbursed by Federal grants (Note A):			
Capital Cost of Contracting (Section 5307)		160,000	
Congestion Mitigation/Air Quality (Section 5307)			421,124
Planning (Section 5307)			187,867
Preventative Maintenance (Section 5307)			2,000,000
Unified planning program, includes local share (Section 5303)			61,800
Total		160,000	2,670,791
Depreciation and amortization (Note C)		2,420	2,536,875
Miscellaneous expense (Note D)	7,925		4,529
Total	7,925	162,420	5,212,195
Net eligible expenses		2,619,618	15,375,201
LESS PROJECT REVENUE -			
Miscellaneous income (Note E)			741
TOTAL ELIGIBLE FOR STATE OPERATING ASSISTANCE	\$ 490,500	\$ 2,619,618	\$ 15,374,460
State operating assistance (38.437574823% for nonurban, 32.438220889% for urban operations, subject to 1997 Floor)	\$ 188,536	\$ 919,661	\$ 5,397,461
Federal (Section 5311) (12.40% for nonurban operations)	60,822		
TOTAL	\$ 249,358	\$ 919,661	\$ 5,397,461

(Continued)

See Independent Auditors' Report on Additional Information.

# **ANN ARBOR TRANSPORTATION AUTHORITY**

## **ADDITIONAL INFORMATION - NOTES TO SCHEDULE OF COMPUTATIONS FOR NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS FOR STATE OPERATING ASSISTANCE YEAR ENDED SEPTEMBER 30, 2005**

---

### **A. ITEMS REIMBURSED BY FEDERAL GRANTS**

Items reimbursed directly by Federal grants are deducted from total expenses in arriving at the net eligible expense total.

### **B. ITEMS REIMBURSED BY STATE OF MICHIGAN GRANTS**

Items reimbursed by State of Michigan grants are deducted from total expenses in arriving at net eligible expenses total.

### **C. DEPRECIATION AND AMORTIZATION**

Depreciation and amortization incurred on assets funded with State and Federal grants is an ineligible expense pursuant to State of Michigan regulations.

### **D. MISCELLANEOUS EXPENSE**

The amounts disallowed represent a percentage of the annual dues paid to the American Public Transit Association and the Michigan Public Transit Association. It was determined that these organizations devote a portion of their efforts, 11.0% and 6.9%, respectively, to influencing legislation which is not eligible for reimbursement according to OMB Circular A-87.

### **E. PROJECT REVENUE - MISCELLANEOUS INCOME**

Miscellaneous income used to reduce net eligible expenses represents other miscellaneous income.

(Concluded)

See Independent Auditors' Report on Additional Information.

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF FINANCIAL ASSISTANCE - FEDERAL AND STATE CAPITAL CONTRIBUTIONS

YEAR ENDED SEPTEMBER 30, 2005

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	State Grantor Number	Program Or Award Amount	Federal Revenue	State Revenue	Disbursements/ Expenditures	Amount Remaining
U.S. Department of Transportation:							
Direct assistance:							
Capital assistance:							
(MI90-0380)	20.507	N/A	3,466,105	\$ 732,996		\$ 732,996	\$ 1,180,607
(MI90-0403)	20.507	N/A	4,612,002	332,939		332,939	740,065
(MI90-0428)	20.507	N/A	984,000	71,657		71,657	884,948
(MI90-0459)	20.507	N/A	160,000	1,117		1,117	158,883
(MI03-0221)	20.xxx	N/A	<u>1,608,012</u>	<u>0</u>		<u>0</u>	<u>1,608,012</u>
Total			9,222,107	1,138,709		1,138,709	2,964,503
Michigan Department of Transportation:							
Capital assistance	N/A	2002-007/Z4	857,000		178,043	178,043	313,186
Capital assistance	N/A	2002-007/Z8	1,138,000		13,066	13,066	255,392
Capital assistance	N/A	2002-007/Z12	238,592		17,914	17,914	213,829
Capital assistance	N/A	2002-007/Z17	<u>0</u>		<u>0</u>	<u>0</u>	<u>0</u>
Total			<u>2,233,592</u>		<u>209,023</u>	<u>209,023</u>	<u>782,407</u>
TOTAL CAPITAL ASSISTANCE			<u>\$ 11,455,699</u>	<u>\$ 1,138,709</u>	<u>\$ 209,023</u>	<u>\$ 1,347,732</u>	<u>\$ 3,746,910</u>

See Independent Auditors' Report on Additional Information.

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF FINANCIAL ASSISTANCE - FEDERAL AND STATE OPERATING REVENUES YEAR ENDED SEPTEMBER 30, 2005

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	State Grantor Number	Program or Award Amount	Federal Revenue	State Revenue	Disbursements/ Expenditures	Amount Remaining
U. S. Department of Transportation - State and federal operating assistance computations based on operating expense - Direct assistance:							
Unified Planning Program (Section 5303)	20.505	5005	\$ 49,440	\$ 49,440			
Planning (Section 5307) (MI90-X403)	20.507		160,000	1			
Planning (Section 5307) (MI90-X428)	20.507		240,000	187,866			
Planning (Section 5307) (MI90-X459)	20.507		320,000				\$ 320,000
Capital cost of contracting (Section 5307) (MI90-X428)	20.507		160,000	160,000			
Capital cost of contracting (Section 5307) (MI90-X459)	20.507		128,000				128,000
Preventive Maintenance (Section 5307) (MI90-X459)	20.507		2,000,000	2,000,000			
Congestion Mitigation/Air Quality (Section 5307) (MI90-X408)	20.507		1,107,000	421,124			
Congestion Mitigation/Air Quality, Passed through MDOT (Sec 5307)	20.507	2005-0091	42,800	20,010		20,010	22,790
Nonurban Areas, Passed through MDOT (Section 5311)	20.509	2002-0007/Z15		60,822			
Michigan Department of Transportation:							
Operating assistance - Act 51 Urban	N/A				\$ 6,317,122	23,369,434	
Operating assistance - Act 51 Non-Urban	N/A				188,536	498,425	
Prior year formula adjustments	N/A				237,388		
Special Services		2002-0007/Z14	75,975		75,975	122,393	
Planning		2002-0007/Z12	30,000		23,482	46,964	
Capital cost of contracting		2002-0007/Z12	40,000		40,000	40,000	
Transportation to Work (formerly Project Zero)		2002-0007/Z13	29,288		29,288	29,288	
TOTAL OPERATING ASSISTANCE				\$ 2,899,263	\$ 6,911,791	\$ 24,126,514	\$ 486,966
STATE PASS-THROUGH:							
Special Services (FY 2004)		2002-0007/Z9		\$ 2,552	\$ 2,552		
Special Services (FY 2005)		2002-0007/Z14		73,617	73,617		
TOTAL STATE PASS-THROUGH				<u>\$ 76,169</u>	<u>\$ 76,169</u>		

See Independent Auditors' Report on Additional Information.



# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF MILEAGE DATA (UNAUDITED) YEAR ENDED SEPTEMBER 30, 2005

---

Public Transportation Mileage			
	Urban	Non-Urban	Charter
FIXED ROUTE:			
First quarter	621,189		
Second quarter	640,206		
Third quarter	616,472		
Fourth quarter	<u>623,087</u>	<u>          </u>	<u>          </u>
Subtotal	2,500,954		
DEMAND - RESPONSE:			
First quarter	13,522		
Second quarter			
Third quarter			
Fourth quarter	<u>          </u>	<u>          </u>	<u>          </u>
Subtotal	13,522		
CONTRACTED SERVICE:			
First quarter	215,228		
Second quarter	289,616		
Third quarter	322,408		
Fourth quarter	<u>306,305</u>	<u>          </u>	<u>          </u>
Subtotal	<u>1,133,557</u>	<u>          </u>	<u>          </u>
TOTAL	<u><u>3,648,033</u></u>	<u><u>          </u></u>	<u><u>          </u></u>

See Independent Auditors' Report on Additional Information.

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF VEHICLE HOURS AND PASSENGERS (UNAUDITED) YEAR ENDED SEPTEMBER 30, 2005

	Vehicle Hours	Passengers			
		Total	Regular	Senior	Disabled
FIXED ROUTE:					
First quarter	45,121	1,151,743	1,077,491	44,572	29,680
Second quarter	46,502	1,195,648	1,132,124	38,631	24,893
Third quarter	44,778	1,072,703	995,962	46,233	30,508
Fourth quarter	<u>45,259</u>	<u>1,281,006</u>	<u>1,196,344</u>	<u>52,637</u>	<u>32,025</u>
Subtotal	181,660	4,701,100	4,401,921	182,073	117,106
Percent		100.00 %	93.64 %	3.87 %	2.49 %
DEMAND - RESPONSE:					
First quarter	1,584	1,990			1,990
Second quarter					
Third quarter					
Fourth quarter					
Subtotal	<u>1,584</u>	<u>1,990</u>			<u>1,990</u>
Percent		100.00 %			100.00 %
CONTRACTED SERVICE:					
First quarter	12,466	36,032	6,868	8,458	20,706
Second quarter	23,788	42,546	6,155	10,553	25,838
Third quarter	24,740	44,194	5,606	11,191	27,397
Fourth quarter	<u>24,012</u>	<u>42,805</u>	<u>5,669</u>	<u>10,769</u>	<u>26,367</u>
Subtotal	<u>85,006</u>	<u>165,577</u>	<u>24,298</u>	<u>40,971</u>	<u>100,308</u>
Percent		100.00 %	14.67 %	24.74 %	60.58 %
TOTAL	<u>268,250</u>	<u>4,868,667</u>	<u>4,426,219</u>	<u>223,044</u>	<u>219,404</u>
PERCENT		100 %	90.91%	4.58%	4.51 %

See Independent Auditors' Report on Additional Information.

# ANN ARBOR TRANSPORTATION AUTHORITY

## SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED SEPTEMBER 30, 2005

Federal Grantor/Pass Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass- Through Grantor's Number	Program or Award Amount	Current Year Expenditures
Transit Capital Grant Cluster - U.S. Department of Transportation - Federal Transit Administration: Federal Transit Capital and Operating Assistance Formula Grants (Section 5307):				
Capital, Planning and Operating Grant MI90-X380	20.507		3,988,000	\$ 732,996
Capital, Planning and Operating Grant MI90-X403	20.507		5,672,000	332,940
Capital, Planning and Operating Grant MI90-X428	20.507		2,184,000	419,523
Capital, Planning and Operating Grant MI90-X459	20.507		2,608,000	2,001,117
Congestion Mitigation/Air Quality Grant MI90-X408	20.507		2,063,000	421,124
Congestion Mitigation/Air Quality Grant, Passed-Through Michigan Department of Transp.	20.507	2005-0091	42,800	<u>20,010</u>
Subtotal - CFDA 20.507				3,927,710
U.S. Department of Transportation - Federal Transit Administration (Section 5309): Federal Transit Capital Grant MI03-0221	20.500		1,608,012	0
Public Transportation for Nonurbanized Areas - Passed-Through Michigan Department of Transportation Operating Assistance (Section 5311):	20.509	2002-0007/Z15		60,822
Federal Transit Technical Studies Grant - Passed-Through Southeastern Michigan Council of Governments - Planning Grant (Section 5303) :	20.505	5005	49,440	<u>49,440</u>
Total Federal Expenditures of Federal Awards				<u><u>\$ 4,037,972</u></u>



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

December 9, 2005

To the Members of the Board of Directors of  
Ann Arbor Transportation Authority  
Ann Arbor, Michigan

We have audited the basic financial statements of the Ann Arbor Transportation Authority (the "Authority") as of and for the years ended September 30, 2005 and 2004, and have issued our report thereon dated December 9, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Ann Arbor Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Ann Arbor Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of the Ann Arbor Transportation Authority in a separate letter dated December 9, 2005.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The script is cursive and fluid, with the first letters of each word being capitalized and prominent.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

 an independent member of  
**BAKER TILLY**  
INTERNATIONAL

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO A MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

December 9, 2005

To the Members of the Board of Directors of  
Ann Arbor Transportation Authority  
Ann Arbor, Michigan

### **Compliance**

We have audited the compliance of the Ann Arbor Transportation Authority (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2005. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2005.

## **Internal Control Over Compliance**

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive, flowing style.

# **ANN ARBOR TRANSPORTATION AUTHORITY**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED SEPTEMBER 30, 2005**

---

### **PART I – SUMMARY OF AUDITORS' RESULTS**

1. The Independent auditors' report on the financial statements expressed an unqualified opinion.
2. There were no reportable conditions in internal control over financial reporting that were identified.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. There were no reportable conditions in internal control over compliance with requirements applicable to the major federal awards program that were identified.
5. The independent auditors' report on compliance with requirements applicable to the major federal award program expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The Authority's major program is:

<b>Name of Cluster</b>	<b>CFDA Number</b>
Federal Transit Capital and Operating Assistance Grants	20.507

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Organization did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

### **PART II – FINANCIAL STATEMENT FINDINGS SECTION**

No matters were reportable.

### **PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COST SECTION**

No matters were reportable.



## **ANN ARBOR TRANSPORTATION AUTHORITY**

**OMB CIRCULAR A-133  
CORRECTIVE ACTION PLAN  
YEAR ENDED SEPTEMBER 30, 2005**

---

There are no reportable instances of noncompliance. Therefore, no corrective action plan is considered necessary.

A handwritten signature in dark ink, appearing to read "C. White", is written over the printed name and title.

Christopher White  
Manager of Service Development  
Compliance Officer

December 9, 2005

# **ANN ARBOR TRANSPORTATION AUTHORITY**

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED SEPTEMBER 30, 2005**

---

No reportable prior audit findings.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



December 9, 2005

To the Members of the Board of Directors of the  
Ann Arbor Transportation Authority  
Ann Arbor, Michigan

We have audited the financial statements of Ann Arbor Transportation Authority for the year ended September 30, 2005, and have issued our report thereon dated December 9, 2005. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated November 18, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Ann Arbor Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Ann Arbor Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Ann Arbor Transportation Authority's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Ann Arbor Transportation Authority's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Ann Arbor Transportation Authority's compliance with those requirements.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Ann Arbor Transportation Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Ann Arbor Transportation Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the liability for medical and life insurance benefits for eligible retirees are determined actuarially. We evaluated the qualifications of the actuaries and found them to be acceptable, and the actuarial report to be complete and consistent with prior years' calculations and within expectations.
- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Ann Arbor Transportation Authority's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed no audit adjustments for the year ending September 30, 2005.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Ann Arbor Transportation Authority’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is intended for the use of the Members of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive, flowing style with a large initial 'L'.

# **Ann Arbor Transportation Authority**

## **Comments and Recommendations**

**For the Year Ended September 30, 2005**

---

During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated December 9, 2005 on the financial statements of Ann Arbor Transportation Authority.

### **BANK ACCOUNT RECONCILIATIONS (Repeat comment)**

All of the financial and accounting functions are either performed by or overseen by the Controller/Chief Financial Officer, which is not unusual for similar sized entities. These functions include preparing journal entries and investing money, as well as reconciling the bank statements to the general ledger on a monthly basis.

In order to enhance internal controls in this area, we recommend that the Authority consider having these monthly bank reconciliations reviewed for reasonableness by another accountant within the Department, and to document this review by initialing and dating the bank reconciliations.

\* \* \* \* \*